

REPORT OF THE AUDIT OF
MARION COUNTY, KENTUCKY

FISCAL YEAR ENDED JUNE 30, 2006

**AUDIT EXAMINATION OF MARION COUNTY, KENTUCKY
FISCAL YEAR ENDED JUNE 30, 2006**

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INDEPENDENT AUDITOR'S REPORT

To the People of Kentucky
Honorable Ernie Fletcher, Governor
John R. Farris, Secretary, Finance and Administration Cabinet
Honorable John G. Mattingly, Marion County Judge/Executive
Members of Marion County Fiscal Court

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Marion County, Kentucky, as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of Marion County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standard* issued by the Comptroller General of the United States, and the *Audit Guide for Fiscal Court Audits* issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Marion County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund of Marion County, Kentucky, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

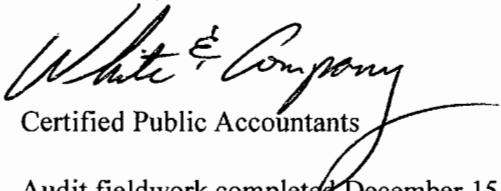
To the People of Kentucky
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The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Marion County, Kentucky's basic financial statements. The accompanying supplemental information, combining fund financial statements, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2006, on our consideration of Marion County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Respectfully submitted,


Certified Public Accountants

Audit fieldwork completed December 15, 2006

**MARION COUNTY OFFICIALS
FISCAL YEAR ENDED JUNE 30, 2006**

Fiscal Court Members:

David R. Hourigan (deceased 9/11/06)	County Judge/Executive
Larry V. Caldwell	Magistrate
John A. Elder	Magistrate
Steve Masterson	Magistrate
Roger Smothers	Magistrate
Jackie Wicker	Magistrate

Other Elected Officials:

Joseph H. Mattingly, III	County Attorney
Barry Brady	Jailer
Samuel Edward Lee, III	County Clerk
Kim May	Circuit Court Clerk
Carroll Kirkland	Sheriff
William U. Scott	Property Valuation Administrator
Dick Moraja	Coroner

Appointed Personnel:

Samuel B. Fogle	County Treasurer
Theresa T. Wilson	Finance Officer

Management's Discussion and Analysis
June 30, 2006
Prepared by Sam Fogle
Marion County Treasurer

Management's discussion and analysis of Marion County Fiscal Court, Kentucky offers readers of Marion County's financial statements a narrative overview and analysis of the financial activities of Marion County for fiscal year ending June 30, 2006. We encourage readers to review both the information presented here in conjunction with other information that we have furnished in our letter of transmission and the notes to these financial statements.

Financial Highlights

- ◆ Marion County had net assets of \$9,398,244 as of June 30, 2006. The fiscal court had \$2,663,794 unrestricted net assets in its governmental activities as of June 30, 2006 that may be used to meet the county's ongoing obligations. Total debt principal was \$8,480,169 with \$371,041 due within one year. The interest due within one year is approximately \$419,307 depending on the variable rates.
- ◆ At the close of the fiscal year Marion County's balance sheet reported a fund balance of \$2,722,682. Of this amount, \$2,860 is restricted for capital projects and \$2,719,822 is available for spending at the government's discretion.
- ◆ Marion County's total indebtedness at the close of fiscal year June 30, 2006 was \$8,480,169, with \$371,041 due in fiscal year 2007 and the remaining \$8,109,128 long-term debt (due after one year). Debt additions were \$324,011; debt reductions were \$451,520. The County's total indebtedness increased primarily due to a loan for the County Office Building construction.

Overview of the Financial Statements

This overview of financial statements is intended to serve as an introduction to Marion County's basic financial statements, which are comprised of three components:

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided.

Government Wide Financial Statements

The *Government-wide financial statements* are designed to provide readers with a broad overview of Marion County's finances in a similar way to private sector enterprises. These statements combine and consolidate short-term, spendable resources with capital assets and long-term obligations.

The *Statement of Net Assets* presents all of Marion County's assets and liabilities, with the difference being reported as net assets. This statement is a useful tool to indicate whether the financial position of the county is improving or deteriorating.

The *Statement of Activities* presents information showing how the government's net assets changed during the fiscal year. All changes in net assets are reported on a modified cash basis of accounting. Basis of accounting is a reference to when events are recorded. For example, Marion County Fiscal Court posts expenses when a check is cut and revenues when a deposit is made. However, Marion County does track contingent liabilities (bills to be paid) as well as bills for services provided but they are not recorded

until paid. Furthermore, depreciation expense on capital assets does not generate a cash transaction so they are not recorded.

Government-wide financial statements distinguish the functions of Marion County that are principally supported by tax and intergovernmental revenues from other functions that are intended to recover all or a significant portion of their costs through user fees and charges. Marion County's governmental activities include general governmental, protection to persons and property (Marion County Detention Center and animal control), roads, recreation, ambulance service, sanitation and social services. Marion County has one business type activity which is the jail canteen.

Included in Marion County's government-wide financial statement is Marion County Public Properties, a separate and legal entity that has a significant operational and financial relationship with the county.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Marion County uses fund accounting to ensure and demonstrate compliance with financial-related legal requirements. All of the funds of Marion County can be divided into two broad categories: governmental funds and proprietary funds.

Government-Wide Financial Analysis

Statement of Net Assets

Total net assets increased from \$7,554,676 at June 30, 2005 to \$9,398,244 at June 30, 2006. This is an increase of \$1,843,568. Of that increase \$9,947 is from business type activities and \$1,833,621 is from government type activities. Total assets increased from \$16,193,131 at June 30, 2005 to \$17,939,561 at June 30, 2006. This increase of \$1,746,430 was due mostly from final construction of the County Office Building in the amount of \$2,747,958 during the fiscal year. Total liabilities decreased from \$8,638,455 at June 30, 2005 to \$8,541,317 at June 30, 2006. This decrease is due to principal paid on payments.

Statement of Activities

Total expense for the primary government increased from \$7,530,764 for the year ended June 30, 2005 to \$8,330,793 for fiscal year ended June 30, 2006. This total increase in expenses of \$800,029 was primarily due to state grants received for the Scotts Ridge project, voting machines and sirens. Total revenue from all sources increased from \$8,754,065 at June 30, 2005 to \$10,174,361 at June 30, 2006. This is a total increase in revenue of \$1,420,296. The change in net assets for June 30, 2005 was \$1,223,301 compared to \$1,843,568 at June 30, 2006. This is an increase of \$620,267 for the current fiscal year.

Statement of Analysis of Individual Funds

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is much narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions.

Marion County maintains nine (9) individual government funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenue, expenditures and changes in fund balances for the General Fund, Road Fund, Jail Fund, L.G.E.A. Fund, Public Properties Fund, County Building Construction Fund, EMS Fund, Rescue Squad Fund, and Animal Shelter Fund.

General Fund. The General Fund is the chief operating fund of Marion County. At FYE June 30, 2006 the General Fund had a fund balance of \$2,449,033. The County received \$2,093,203 in occupational tax revenues. This accounts for approximately 41.06% of the general fund revenue. The county also received \$1,356,987 in sanitation fees, which is 26.62% of the general fund. Property tax generated \$677,504 in revenue. This was 13.29% of the revenue for the general fund. Grants totaled \$349,414 which was 6.85% of the total revenue. Various other taxes and service fees make up the rest of the remaining 12% of the revenues. There was a prior year carryover of \$1,915,636 and there was \$290,000 transferred to other governmental funds.

A large portion of the general fund expenditures was comprised of salary/wages and benefits. Total salaries/wages for the general fund was \$781,986 and benefits were \$559,478. Benefits and salaries/wages were 31% of the general fund expenses. Other major expenses were capital projects; and various other expenditures make up the rest of the 69%.

The beginning fund balance was \$1,915,636 and ending fund balance was \$2,449,033, resulting in a gain of \$533,397.

General Fund Budgetary Highlights

Marion County's budget was amended during the fiscal year increasing the operating budget by \$800,000. Budget Amendments were made to all areas due to surplus of cash carried forward and unexpected revenues.

Actual operating revenues were \$748,362 more than the amount originally budgeted by Fiscal Court. This increase was primarily from intergovernmental sources (Commonwealth of Kentucky and Marion County Sheriff) occupational tax revenues and fees for sanitation services.

Actual operating expenditures were \$1,249,171 less than the amount originally budgeted by Fiscal Court. Reserve for Transfer was 81% of the amount of expenditures not expended.

Road Fund. The Road Funds income was primarily the County Road Agreement with the Commonwealth of Kentucky (91%). \$110,000 was transferred from the General Fund and the Road fund had a Prior year carryover of \$121,104.

Forty-one percent (41%) of the expenditures was for bridges and roads while 24% was for wages and benefits. New vehicles comprised 12% of the expenditures and various other expenditures comprise the remaining 23%.

The ending fund balance for the road was \$95,735 this is a decrease of \$25,369 from the prior year.

Road Fund Budgetary Highlights

The road budget was amended during the fiscal year increasing the operating budget by \$51,000. Budget amendments were made to all areas due to a surplus of cash carried forward and Intergovernmental grants.

Actual operating revenues were \$53,269 more than originally budgeted by the Fiscal Court. This increase was due to a more than expected prior year carryover.

Actual expenditures were \$28,638 more than originally budgeted. This was caused primarily due to resurfacing roads.

Jail Fund. The jail received 63% of its income from the Commonwealth of Kentucky, and 27% was received from Taylor County Fiscal Court and Washington County Fiscal Court. Various other incomes made up the remaining 10%. There were no transfers from the General Fund.

The jail expended 63% of the total expenditures on wages/salary and benefits, 14% on debt service, 9% on food, 7% on medical services and 5% on gasoline and utilities. The remaining 2% was expended on various items.

The beginning fund balance for the jail was \$89,035, and the ending fund balance was \$40,228. This is a decrease in fund balance of 48,807 from the prior year.

Jail Fund Budgetary Highlights

The jail fund was amended during the fiscal year increasing the operating budget by \$250,000. Mostly the amendments were made because of housing more C.C. Housing and Class "D" prisoners.

Actual operating revenues were \$475,086 more than originally budgeted. This again was due to housing more C.C. Housing and class "D" prisoners than anticipated.

Actual expenditures were \$279,768 more than the original budget. Health Insurance and Utility costs were the main expenditures that were over the original budget.

There were no transfers from the General Fund.

Construction Fund. Marion County borrowed \$300,000 to finance the final stage of construction of the Marion County Office Building and received \$86,431 in interest while having \$2,378,527 in expenditures leaving a fund balance of \$2,860.

Proprietary Fund

Proprietary funds provide the same type of information as the business-type activity column on the government-wide financial statements, only in more detail. Marion County has only one propriety fund, which is the Jail Canteen Fund.

Capital Assets and Debt Administration

Capital Assets. Marion County's investment in capital assets for its governmental and business type activities as of June 30, 2006 amounts to \$15,212,007 (net of accumulated depreciation) an increase of \$3,278,286. The large increase was due primarily to the construction project for the County Office Building and capitalization of county roads. This investment in capital assets includes land, buildings, improvements to land other than buildings, machinery and equipment, vehicles and current year infrastructure additions. Additional information on capital assets can be found in Note 3 to the financial statements.

Long-term debt. At the end of the fiscal year 2006, Marion County had a total long-term debt outstanding of \$8,480,169 (principal and interest). This is a decrease of \$127,619 due mostly from paid principal and interest. The amount of debt due within the next fiscal year is \$371,041 (principal and interest). This debt is for the detention center, county office building, van and backhoe. Additional information on long term debt can be found in note 4 to the financial statements.

Other Matters

The following factors are expected to have a significant effect on Marion County's financial position or results of operations and were taken into account in developing the 2006 fiscal year budget:

- ◆ The fiscal year ending (FYE) 2007 budget continues most services at current levels with the exception for which state funds are decreasing for projects that were completed and federal funds decreasing for projects completed in FYE 2006.
- ◆ Debt service will increase due to monies borrowed for the County Office Building and will have a negative impact on the general fund.

Request for Information

This financial report is designed to provide a general overview of Marion County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Sam Fogle, 223 North Spalding, Avenue, Lebanon, KY 40033

MARION COUNTY, KENTUCKY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
JUNE 30, 2006

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS:			
Current Assets			
Cash & Cash Equivalents - Note 1E	2,722,682	2,752	2,725,434
Interest Receivable	2,120		2,120
Total Current Assets	<u>2,724,802</u>	<u>2,752</u>	<u>2,727,554</u>
Noncurrent Assets - Note 3			
Land and Land Improvements	417,000		417,000
Buildings	17,422,625	4,120	17,426,745
Other Equipment	747,681	11,998	759,679
Vehicles and Equipment	3,339,584	24,011	3,363,595
Infrastructure	1,373,719		1,373,719
Construction in Progress			
Less: Accumulated Depreciation	(8,124,886)	(3,845)	(8,128,731)
Total Noncurrent Assets	<u>15,175,723</u>	<u>36,284</u>	<u>15,212,007</u>
TOTAL ASSETS	<u><u>17,900,525</u></u>	<u><u>39,036</u></u>	<u><u>17,939,561</u></u>
LIABILITIES:			
Current Liabilities:			
Accrued Interest Payable	61,148		61,148
Notes Payable - Note 4	363,196	7,845	371,041
Total Current Liabilities	<u>424,344</u>	<u>7,845</u>	<u>432,189</u>
Noncurrent Liabilities:			
Notes Payable - Note 4	8,098,672	10,456	8,109,128
Total Noncurrent Liabilities	<u>8,098,672</u>	<u>10,456</u>	<u>8,109,128</u>
TOTAL LIABILITIES	<u><u>8,523,016</u></u>	<u><u>18,301</u></u>	<u><u>8,541,317</u></u>
NET ASSETS:			
Invested in Net Assets, Net of Related Debt	6,713,855	17,983	6,731,838
Restricted For:			
Capital Projects	2,860		2,860
Debt Service			
Grant Projects			
Unrestricted	<u>2,660,794</u>	<u>2,752</u>	<u>2,663,546</u>
TOTAL NET ASSETS	<u><u>9,377,509</u></u>	<u><u>20,735</u></u>	<u><u>9,398,244</u></u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>17,900,525</u></u>	<u><u>39,036</u></u>	<u><u>17,939,561</u></u>

See independent auditor's report and accompanying notes to financial statements.

MARION COUNTY, KENTUCKY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
YEAR ENDED JUNE 30, 2006

FUNCTION/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET(EXPENSE) REVENUE AND CHANGES IN NET ASSETS		
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
GOVERNMENTAL ACTIVITIES:							
General Government	883,030		411,398	99,905	(371,727)		(371,727)
Protection to Persons and Property	2,851,868	49,863	2,647,204		(154,801)		(154,801)
General Health and Sanitation	1,455,745	2,026,486	10,017		580,758		580,758
Social Services	93,303				(93,303)		(93,303)
Recreation and Culture	15,256				(15,256)		(15,256)
Bus Services	38,689				(38,689)		(38,689)
Roads	736,734		620,172	692,679	576,117		576,117
Debt Service	667,079				(667,079)		(667,079)
Administration	1,472,275				(1,472,275)		(1,472,275)
TOTAL GOVERNMENTAL ACTIVITIES	8,213,979	2,076,349	3,688,791	792,584	(1,656,255)		(1,656,255)
BUSINESS-TYPE ACTIVITIES:							
Jail Canteen	116,814	126,761				9,947	9,947
TOTAL BUSINESS-TYPE ACTIVITIES	116,814	126,761				9,947	9,947
TOTAL PRIMARY GOVERNMENT	8,330,793	2,203,110	3,688,791	792,584	(1,656,255)	9,947	(1,646,308)
GENERAL REVENUES:							
Taxes:							
Real Property Taxes					650,738		650,738
Personal Property Taxes					4,456		4,456
Motor Vehicle Taxes					96,655		96,655
Other Taxes					2,208,517		2,208,517
Excess Fees					48,517		48,517
Unrestricted Investment Earnings					162,589		162,589
Miscellaneous Revenues					318,404		318,404
Total General Revenues and Transfers					3,489,876		3,489,876
Change in Net Assets					1,833,621	9,947	1,843,568
Net Assets - Beginning					7,543,888	10,788	7,554,676
Net Assets - Ending					9,377,509	20,735	9,398,244

See independent auditor's report and accompanying notes to financial statements.

MARION COUNTY, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
JUNE 30, 2006

	GENERAL FUND	ROAD FUND	JAIL FUND	CONSTRUCTION FUND	NON-MAJOR FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS:						
Cash & Cash Equivalents	2,449,033	95,735	40,228	2,860	134,826	2,722,682
TOTAL ASSETS	<u>2,449,033</u>	<u>95,735</u>	<u>40,228</u>	<u>2,860</u>	<u>134,826</u>	<u>2,722,682</u>
FUND BALANCE:						
Unreserved:						
General Fund	2,449,033					2,449,033
Special Revenue Fund		95,735	40,228		134,826	270,789
Capital Projects Fund				2,860		2,860
Total Fund Balance	<u>2,449,033</u>	<u>95,735</u>	<u>40,228</u>	<u>2,860</u>	<u>134,826</u>	<u>2,722,682</u>

See independent auditor's report and accompanying notes to financial statements.

MARION COUNTY, KENTUCKY
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
June 30, 2006

Amounts reported for governmental activities in the statement of net assets are different because:

TOTAL GOVERNMENTAL FUND BALANCE	2,722,682
Accrued Interest Receivable	2,120
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.	
Cost of Capital Assets	23,300,609
Accumulated Depreciation	<u>(8,124,886)</u>
	15,175,723
Accrued Interest Payable	(61,148)
Long-term liabilities (including bonds payable) are not due and payable in the current period and therefore are not reported as liabilities in the funds.	
Long-term liabilities at year end consist of:	
Note Payable	<u>(8,461,868)</u>
TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES	<u><u>9,377,509</u></u>

See independent auditor's report and accompanying notes to financial statements.

MARION COUNTY, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES AND, CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
YEAR ENDED JUNE 30, 2006

	GENERAL FUND	ROAD FUND	JAIL FUND	CONSTRUCTION FUND	NON-MAJOR FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES:						
Taxes	2,960,365					2,960,365
Excess Fees	48,517					48,517
Licenses and Permits	2,097					2,097
Intergovernmental	460,851	1,312,851	2,647,204		60,469	4,481,375
Charges for Services	1,411,145		49,863		615,341	2,076,349
Miscellaneous	151,300	13,721	141,026		10,260	316,307
Interest	63,087	2,648	4,693	86,431	3,610	160,469
TOTAL REVENUES	5,097,362	1,329,220	2,842,786	86,431	689,680	10,045,479
EXPENDITURES:						
General Government	916,847					916,847
Protection to Persons and Property	221,677		2,061,970		689,250	2,972,897
General Health and Sanitation	1,351,428				13,153	1,364,581
Social Services	93,303					93,303
Recreation and Culture	15,256					15,256
Bus Services	38,689					38,689
Roads		1,350,139			10,000	1,360,139
Debt Service	368,613		419,151			787,764
Capital Projects	473,374			2,378,527		2,851,901
Administration	794,778	114,450	414,047		149,000	1,472,275
TOTAL EXPENDITURES	4,273,965	1,464,589	2,895,168	2,378,527	861,403	11,873,652
Excess (Deficiency) of Revenue Over Expenditures	823,397	(135,369)	(52,382)	(2,292,096)	(171,723)	(1,828,173)
Before Other Financing Sources (Uses)						
OTHER FINANCING SOURCES(USES):						
Financing Obligation Proceeds						300,000
Transfers From Other Funds		110,000	3,575	300,000	180,000	293,575
Transfers To Other Funds	(290,000)				(3,575)	(293,575)
TOTAL OTHER FINANCING SOURCES (USES)	(290,000)	110,000	3,575	300,000	176,425	300,000
NET CHANGE IN FUND BALANCES	533,397	(25,369)	(48,807)	(1,992,096)	4,702	(1,528,173)
FUND BALANCES - BEGINNING	1,915,636	121,104	89,035	1,994,956	130,124	4,250,855
FUND BALANCES - ENDING	2,449,033	95,735	40,228	2,860	134,826	2,722,682

See independent auditor's report and accompanying notes to financial statements.

MARION COUNTY, KENTUCKY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
YEAR ENDED JUNE 30, 2006

Amounts reported for governmental activities in the statement of activities are different because:

NET CHANGES - GOVERNMENTAL FUNDS	(1,528,173)
Accrued interest receivable	2,120
Governmental funds report capital outlays as expenditures because they use current financial resources. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital exceeds depreciation expense for the year.	
Depreciation Expense	(532,727)
Capital Outlays	<u>3,781,465</u>
	3,248,738
Accrued interest payable	(61,148)
Prior Year Capitalized Interest Paid	26,274
Note proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets.	
Principal Paid	445,810
Note Proceeds	<u>(300,000)</u>
CHANGES - NET ASSETS GOVERNMENTAL FUNDS	<u><u>1,833,621</u></u>

See independent auditor's report and accompanying notes to financial statements.

MARION COUNTY, KENTUCKY
STATEMENT OF NET ASSETS
PROPRIETARY FUND - MODIFIED CASH BASIS
JUNE 30, 2006

	Business-Type Activities Enterprise Fund
	Jail Canteen Fund
ASSETS:	
Current Assets:	
Cash & Cash Equivalents	2,752
Total Current Assets	<u>2,752</u>
Noncurrent Assets	
Capital Assets:	
Buildings	4,120
Other Equipment	11,998
Vehicles & Equipment	24,011
Less Accumulated Depreciation	<u>(3,845)</u>
Total Noncurrent Assets	36,284
TOTAL ASSETS	<u><u>39,036</u></u>
LIABILITIES:	
Current Liabilities	
Note Payable - Note 4-F	7,844
Noncurrent Liabilities	
Note Payable - Note 4-F	<u>10,457</u>
Total Liabilities	18,301
NET ASSETS:	
Invested in Capital Assets,	
Net of Related Debt	17,983
Unrestricted	<u>2,752</u>
TOTAL NET ASSETS	<u><u>20,735</u></u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>39,036</u></u>

See independent auditor's report and accompanying notes to financial statements.

MARION COUNTY, KENTUCKY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND - MODIFIED CASH BASIS
YEAR ENDED JUNE 30, 2006

	Business-Type Activities Enterprise Fund
	Jail Canteen Fund
OPERATING REVENUES:	
Canteen Receipts	126,761
TOTAL OPERATING REVENUES	<u>126,761</u>
OPERATING EXPENSES:	
Cost of Sales	49,747
Educational and Recreational	24,464
Personnel Costs	25,502
Depreciation - Note 3	3,207
Miscellaneous	13,894
TOTAL OPERATING EXPENSES	<u>116,814</u>
Operating Income (Loss)	9,947
NONOPERATING REVENUES (EXPENSES):	
Interest Income	0
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>0</u>
CHANGE IN NET ASSETS	9,947
TOTAL NET ASSETS - BEGINNING	<u>10,788</u>
TOTAL NET ASSETS - ENDING	<u><u>20,735</u></u>

See independent auditor's report and accompanying notes to financial statements.

MARION COUNTY, KENTUCKY
STATEMENT OF CASH FLOWS
PROPRIETARY FUND - MODIFIED CASH BASIS
YEAR ENDED JUNE 30, 2006

	Business-Type Activities Enterprise Fund
	Jail Canteen Fund
CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from Customers	126,761
Cost of Sales	(49,747)
Educational and Professional	(24,464)
Personnel Costs	(25,502)
Miscellaneous	(13,894)
	<u>13,154</u>
Net Cash Provided by Operating Activities	13,154
CASH FLOWS FROM CAPITAL AND RELATED ACTIVITIES:	
Acquisition of Capital Assets	(32,755)
	<u>(32,755)</u>
Net Cash Used in Capital and Related Financing Activities	(32,755)
CASH FLOWS FROM FINANCING ACTIVITIES:	
Proceeds from Lease Obligation	24,011
Decrease in Lease Obligation	(5,710)
	<u>18,301</u>
Net Cash Provided by Financing Activities	18,301
Increase(Decrease) in Cash and Cash Equivalents	(1,300)
CASH AND CASH EQUIVALENTS - JULY 1, 2005	<u>4,052</u>
CASH AND CASH EQUIVALENTS - JUNE 30, 2006	<u><u>2,752</u></u>
	Business-Type Activities Enterprise Fund
	Jail Canteen Fund
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:	
Operating Income (Loss)	9,947
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) By Operating Activities	
Depreciation	3,207
	<u>13,154</u>
TOTAL CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>13,154</u></u>

See independent auditor's report and accompanying notes to financial statements.

MARION COUNTY, KENTUCKY
STATEMENT OF FIDUCIARY NET ASSETS - MODIFIED CASH BASIS
JUNE 30, 2006

	<u>Agency Funds</u>
ASSETS	
Current Assets:	
Cash & Cash Equivalents	<u>16,909</u>
TOTAL ASSETS	<u>16,909</u>
 LIABILITIES	
Amounts Held in Custody for Others	<u>16,909</u>
TOTAL LIABILITIES	<u>16,909</u>
 NET ASSETS	
Held in trust for pension benefits and other purposes	<u>0</u>
TOTAL NET ASSETS	<u>0</u>
 TOTAL LIABILITIES AND NET ASSETS	<u><u>16,909</u></u>

See independent auditor's report and accompanying notes to financial statements.

MARION COUNTY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The County utilizes a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on the Balance Sheet – Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet – Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the County to report capital assets; however, the value of these assets are included in the Statement of Net Assets and their corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Marion County include the funds, agencies, boards, and entities for which the Fiscal Court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the County is financially accountable or the organization's exclusion would cause the County's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented.

Blended Component Units

The following legally separate organization provides its services exclusively to the primary government, and the Fiscal Court is able to impose its will on this organization. This organization's balances and transactions are reported as though it is a part of the County's primary government using the blending method.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Marion County Public Properties Corporation – This Corporation is a legally separate organization that provides its services exclusively to the primary government. This component unit cannot be sued in its own name without recourse to the Marion County Fiscal Court, which appoints a voting majority consisting of the Fiscal Court members. The Fiscal Court is able to impose its will on the Corporation. The Corporation is created solely for the benefit of the Fiscal Court per KRS 58.180 to act as the agent in the acquisition and financing of any public project. The Fiscal Court has access to the Corporation's resources, is legally obligated to finance the debts of or provide financial support to the Corporation. The Corporation is financially accountable to the Fiscal Court.

C. Marion County Constitutional Elected Officials

Circuit Court Clerk
County Attorney
Property Valuation Administrator
County Clerk
County Sheriff

D. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The government-wide statements are reported using the economic resources measurement focus and the modified cash basis of accounting, as do the proprietary fund financial statements. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: (1) invested in capital assets, net of related debt – consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; (2) restricted net assets – resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and (3) unrestricted net assets – those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; (2) operating grants and contributions; and (3) capital grants and contributions that are restricted to meeting the operational or

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Funds are characterized as either major or non-major funds. Major funds are those funds whose total assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary funds) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The Fiscal Court may also designate any fund as a major fund.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

Governmental Funds

All governmental fund statements are reported using the current financial resources measurement focus and the modified cash basis of accounting. The modified cash basis recognizes revenues when received and expenditures when paid. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

The primary government reports the following major governmental funds:

General Fund – This is the primary operating fund of Fiscal Court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund – This fund is for road and bridge construction and repair. The primary sources of revenue for this fund are state payments for truck licenses distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires Fiscal Court to maintain these receipts and expenditures separately from the General Fund.

Construction Fund – This fund accounts for the activity involved in construction of the new county office building.

Jail Fund – The primary purpose of this fund is to account for the jail expenses of the County. The primary sources of revenue for this fund are reimbursements from the state and federal governments, payments from other counties for housing prisoners, and transfers from the General Fund. The Governor's Office for Local Development requires Fiscal Court to maintain these receipts and expenditures separately from the General Fund.

The primary government also has the following non-major funds: Local Government Economic Assistance Fund, EMS Fund, Animal Control Slavin Fund, Rescue Squad Slavin Fund, and the Public Properties Fund.

Special Revenue Funds – The Road Fund, Jail Fund, Local Government Economic Assistance Fund, EMS Fund, Animal Control Slavin Fund, and the Rescue Squad Slavin Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Capital Projects Fund – The Construction Fund and the Public Properties Fund are presented as capital projects funds. Capital projects funds are to account for the acquisition or construction of major capital facilities.

Proprietary Funds

All proprietary funds are reported using the modified cash basis of accounting. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the County's enterprise funds are charges to customers for sales in the Jail Canteen Fund. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets.

The primary government reports the following major proprietary fund:

Jail Canteen Fund – The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the County Treasurer the receipts and disbursements of the Jail Canteen Fund.

Fiduciary Funds

All fiduciary funds are reported using the modified cash basis of accounting. Fiduciary funds report only those resources held in a trust or custodial capacity for individuals, private organizations, or other governments. Unlike other funds, the agency fund reports assets and liabilities only; therefore, it has no measurement focus.

The primary government reports the following fiduciary fund:

Agency Fund – These funds account for various payroll related withholdings and the Jail Inmate Trust Fund monies held for custodial purposes only until remitted to the proper agencies or individuals.

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificate of deposits, and short-term investments with original maturities of six months or less from the date of acquisition.

KRS 66.480 authorizes the County to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States Government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and construction in progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	All	10 to 60
Buildings and Building Improvements	10,000	10 to 75
Machinery and Equipment	1,000	3 to 25
Vehicles	5,000	3 to 25
Infrastructure	20,000	12 to 25

G. Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amounts of bonds, notes, and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid during the current period. The principal amount of the debt and interest is reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent Fiscal Court's intended use of the resources and should reflect actual plans approved by Fiscal Court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, Fiscal Court incurs no liability until performance has occurred on the part of the party with whom Fiscal Court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet – Governmental Funds as part of the fund balance.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to Fiscal Court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by Fiscal Court by July 1.

Fiscal Court may change the original budget by transferring appropriations at the activity level; however, Fiscal Court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budget appropriations at the activity level.

The public properties fund is not required to be budgeted by the treasurer because the net payments are budgeted within the County funds.

J. Related Organizations, Joint Venture, and Jointly Governed Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's government board. Based on these criteria, Marion County Fiscal Court has no related organizations.

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participation retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Based upon these criteria, Marion County Fiscal Court has no joint venture or jointly governed organizations.

NOTE 2 – DEPOSITS

The primary government and component units maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). As allowed KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County and the depository institution, signed by both parties; that is (a) writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee; and (c) an official record of the depository institution.

For a deposit, custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240 (4). As of June 30, 2006, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
NOTE 3 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2006, was as follows:

	BEGINNING BALANCE	ADDITIONS	RETIREMENTS	TRANSFERS	ENDING BALANCE
GOVERNMENTAL ACTIVITIES:					
Land	417,000				417,000
Buildings	11,831,000			5,591,625	17,422,625
Other Equipment	527,452	220,229			747,681
Vehicles and Equipment	3,183,809	190,275	(34,500)		3,339,584
Infrastructure	750,716	623,003			1,373,719
Construction in Progress	2,843,667	2,747,958		(5,591,625)	
TOTAL AT HISTORICAL COST	19,553,644	3,781,465	(34,500)		23,300,609
LESS ACCUMULATED DEPRECIATION FOR:					
Buildings	5,224,665	197,409			5,422,074
Other Equipment	276,193	50,591			326,784
Vehicles and Equipment	2,064,699	199,173	(34,500)		2,229,372
Infrastructure	61,102	85,554			146,656
Construction in Progress					
TOTAL ACCUMULATED DEPRECIATION	7,626,659	532,727	(34,500)		8,124,886
GOVERNMENTAL ACTIVITIES CAPITAL NET	11,926,985	3,248,738			15,175,723
PROPRIETARY ACTIVITIES:					
Buildings	4,120				4,120
Other Equipment	3,254	8,744			11,998
Vehicles and Equipment		24,011			24,011
TOTALS AT HISTORICAL COST	7,374	32,755			40,129
LESS ACCUMULATED DEPRECIATION FOR:					
Buildings	52	206			258
Furniture and Fixtures	586	1,200			1,786
Vehicles and Equipment		1,801			1,801
TOTAL ACCUMULATED DEPRECIATION	638	3,207			3,845
PROPRIETARY ACTIVITIES CAPITAL NET	6,736	29,548			36,284

Depreciation expense was charged to functions of the primary government as follows:

General Government	\$150,203
Protection to Persons and Property	132,732
General Health and Sanitation	91,164
Roads, Including Depreciation of General Infrastructure Assets	158,628
Total Depreciation Expense - Governmental Activities	\$532,727
Business -Type Activities	
Jail Canteen	\$3,207
Total Depreciation Expense - Business-type Activities	\$3,207

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 – LONG-TERM DEBT

A. On June 10, 1998, Marion County Public Properties Corporation entered into a contract, lease, and option in the amount of \$5,400,000 from Community Trust Bank, F.S.B. for the purpose of funding the expansion of the Marion County Detention Center. The estimated cost of the expansion was \$1,990,046; the remaining balance of the contract lease and option was used to pay off the financing statement with Star Bank, N.A. for the original construction. The date of the final maturity of the obligation is May 1, 2018. As of June 30, 2006, the outstanding principal balance was \$3,883,246.

<u>Due Date</u>	<u>Interest</u>	<u>Principal</u>
June 30, 2007	216,221	163,779
June 30, 2008	206,758	173,424
June 30, 2009	196,749	183,251
June 30, 2010	186,162	193,838
June 30, 2011	174,962	205,038
June 30, 2012-2016	682,824	1,217,176
June 30, 2017-2018	<u>190,770</u>	<u>1,746,740</u>
	<u>1,854,446</u>	<u>3,883,246</u>

B. On December 16, 2003, Marion County Public Properties Corporation entered into a contract, lease, and option in the amount of \$3,500,000 from Farmers National Bank for the purpose of funding the construction of the Marion County administration building. The date of the final maturity of the obligation is November 1, 2023. As of June 30, 2006, the outstanding principal balance was \$3,321,275.

<u>Due Date</u>	<u>Interest</u>	<u>Principal</u>
June 30, 2007	Variable	128,450
June 30, 2008	Variable	135,890
June 30, 2009	Variable	143,330
June 30, 2010	Variable	150,770
June 30, 2011	Variable	158,210
June 30, 2012-2016	Variable	902,650
June 30, 2017-2021	Variable	1,088,648
June 30, 2022-2023	Variable	<u>613,327</u>
		<u>3,321,275</u>

C. On December 7, 2005, Marion County Public Properties Corporation entered into a contract, lease, and option in the amount of \$300,000 from US Bank for the purpose of funding the construction of the Marion County administration building. The date of the final maturity of the obligation is July 20, 2015. As of June 30, 2006, the outstanding principal balance was \$300,000.

<u>Due Date</u>	<u>Interest</u>	<u>Principal</u>
June 30, 2007	12,884	25,000
June 30, 2008	12,070	25,000
June 30, 2009	11,058	25,000
June 30, 2010	9,652	30,000
June 30, 2011	8,223	30,000
June 30, 2012-2015	<u>18,173</u>	<u>165,000</u>
	<u>72,060</u>	<u>300,000</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

D. On August 20, 2004, Marion County Public Properties Corporation entered into a contract, lease, and option in the amount of \$1,000,000 from Farmers National Bank for the purpose of funding the construction of the Marion County administration building. The date of the final maturity of the obligation is November 1, 2023. As of June 30, 2006, the outstanding principal balance was \$947,980.

<u>Due Date</u>	<u>Interest</u>	<u>Principal</u>
June 30, 2006	Variable	36,600
June 30, 2007	Variable	38,800
June 30, 2008	Variable	40,800
June 30, 2009	Variable	43,000
June 30, 2010	Variable	45,130
June 30, 2012-2016	Variable	257,390
June 30, 2017-2021	Variable	310,900
June 30, 2022-2023	Variable	<u>175,360</u>
		<u>947,980</u>

E. On September 3, 2004, the County entered into a lease agreement for a motor grader with John Deere Credit, Inc. at a rate of 4.249 percent. The date of the final maturity of the obligation is September 1, 2006. As of June 30, 2006, the outstanding principal balance was \$9,367.

<u>Due Date</u>	<u>Interest</u>	<u>Principal</u>
June 30, 2007	<u>100</u>	<u>9,367</u>

F. On October 14, 2005, the Jail Canteen Fund entered into a lease agreement for a van with Daimler Chrysler Truck Finance, Inc. at a rate of 5.72 percent. The date of the final maturity of the obligation is September 9, 2008. As of June 30, 2006, the outstanding principal balance was \$18,301.

<u>Due Date</u>	<u>Interest</u>	<u>Principal</u>
June 30, 2007	843	7,845
June 30, 2008	383	8,305
June 30, 2009	<u>21</u>	<u>2,151</u>
	<u>1,247</u>	<u>18,301</u>

G. Changes in Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2006, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Primary Government					
Governmental Activities:					
Financing Obligations	<u>8,607,678</u>	<u>300,000</u>	<u>445,810</u>	<u>8,461,868</u>	<u>371,041</u>
Governmental Activities					
Long-Term Liabilities	<u>8,607,678</u>	<u>300,000</u>	<u>445,810</u>	<u>8,461,868</u>	<u>371,041</u>
Business Type Activities:					
Long-Term Liabilities	<u>0</u>	<u>24,011</u>	<u>5,710</u>	<u>18,301</u>	<u>7,845</u>

(CONTINUED NOTES TO FINANCIAL STATEMENTS)

NOTE 5 – INTEREST ON LONG-TERM DEBT AND FINANCING OBLIGATIONS

Debt Service on the Statement of Activities includes \$378,408 in interest on financing obligations and \$ -0- in interest on bonds and notes.

NOTE 6 – EMPLOYEE RETIREMENT SYSTEM

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple-employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 10.98 percent. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 25.01 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information showing the CERS' progress is accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement System, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

NOTE 7 – DEFERRED COMPENSATION

On February 24, 2000, the Marion County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by The Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate. These deferred compensation plans permit all full-time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plan is voluntary.

Historical trend information showing The Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in The Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing the Kentucky Public Employees Deferred Compensation Authority at 105 Sea Hero Road, Suite 1, Frankfort, Kentucky 40601-8862, or by telephone (502) 573-7925.

NOTE 8 – INSURANCE

For the fiscal year ended June 30, 2006, Marion County was a member of the Kentucky Association of Counties' All Lines fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

**MARION COUNTY, KENTUCKY
BUDGETARY COMPARISON SCHEDULES
REQUIRED SUPPLEMENTAL INFORMATION
YEAR ENDED JUNE 30, 2006**

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance With Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	2,647,000	2,922,000	2,960,365	38,365
Excess Fees	0	0	48,517	48,517
License and Permits	1,000	1,000	2,097	1,097
Intergovernmental	211,000	436,000	460,851	24,851
Charges for Services	1,390,000	1,390,000	1,411,145	21,145
Miscellaneous	92,000	392,000	151,300	(240,700)
Interest	8,000	8,000	63,087	55,087
TOTAL REVENUES	4,349,000	5,149,000	5,097,362	(51,638)
EXPENDITURES:				
General government	1,074,024	1,142,124	916,847	225,277
Protection to Persons and Property	230,740	236,323	221,677	14,646
General Health and Sanitation	1,436,480	1,510,480	1,351,428	159,052
Social Services	95,000	137,000	93,303	43,697
Recreation and Culture	16,000	15,000	15,256	(256)
Bus Services	40,000	40,000	38,689	1,311
Debt Service	370,000	398,000	368,613	29,387
Capital Projects	677,500	712,610	473,374	239,236
Administration	1,583,392	1,824,448	794,778	1,029,670
TOTAL EXPENDITURES	5,523,136	6,015,985	4,273,965	1,742,020
Excess (Deficiency) of Revenue Over Expenditures Before Other Financing Sources(Uses)	(1,174,136)	(866,985)	823,397	1,690,382
OTHER FINANCING SOURCES (USES):				
Transfers To Other Funds	(526,400)	(526,400)	(290,000)	236,400
TOTAL OTHER FINANCING SOURCES (USES)	(526,400)	(526,400)	(290,000)	236,400
NET CHANGES IN FUND BALANCES	(1,700,536)	(1,393,385)	533,397	1,926,782
FUND BALANCES - BEGINNING	1,700,536	1,393,385	1,915,636	522,251
FUND BALANCES - ENDING	0	0	2,449,033	2,449,033

See independent auditor's report and accompanying notes to financial statements.

MARION COUNTY, KENTUCKY
BUDGETARY COMPARISON SCHEDULES
REQUIRED SUPPLEMENTAL INFORMATION
YEAR ENDED JUNE 30, 2006

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance With Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Intergovernmental	1,268,951	1,312,951	1,312,851	(100)
Miscellaneous	6,000	13,000	13,721	721
Interest	1,000	1,000	2,648	1,648
TOTAL REVENUES	<u>1,275,951</u>	<u>1,326,951</u>	<u>1,329,220</u>	<u>2,269</u>
EXPENDITURES:				
Roads	1,279,300	1,521,300	1,350,139	171,161
Administration	156,651	156,651	114,450	42,201
TOTAL EXPENDITURES	<u>1,435,951</u>	<u>1,677,951</u>	<u>1,464,589</u>	<u>213,362</u>
Excess (Deficiency) of Revenue Over Expenditures Before Other Financing Sources(Uses)	<u>(160,000)</u>	<u>(351,000)</u>	<u>(135,369)</u>	<u>215,631</u>
OTHER FINANCING SOURCES (USES):				
Transfers From Other Funds	100,000	100,000	110,000	10,000
TOTAL OTHER FINANCING SOURCES (USES)	<u>100,000</u>	<u>100,000</u>	<u>110,000</u>	<u>10,000</u>
NET CHANGES IN FUND BALANCES	(60,000)	(251,000)	(25,369)	225,631
FUND BALANCES - BEGINNING	<u>60,000</u>	<u>251,000</u>	<u>121,104</u>	<u>(129,896)</u>
FUND BALANCES - ENDING	<u>0</u>	<u>0</u>	<u>95,735</u>	<u>95,735</u>

See independent auditor's report and accompanying notes to financial statements.

MARION COUNTY, KENTUCKY
BUDGETARY COMPARISON SCHEDULES
REQUIRED SUPPLEMENTAL INFORMATION
YEAR ENDED JUNE 30, 2006

JAIL FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance With Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Intergovernmental	2,248,200	2,437,200	2,647,204	210,004
Charges for Services	30,000	46,000	49,863	3,863
Miscellaneous	90,000	135,000	141,026	6,026
Interest	2,500	2,500	4,693	2,193
TOTAL REVENUES	2,370,700	2,620,700	2,842,786	222,086
EXPENDITURES:				
Protection to Persons and Property	1,841,100	2,162,100	2,061,970	100,130
Debt Service	404,000	419,151	419,151	0
Administration	370,300	424,300	414,047	10,253
TOTAL EXPENDITURES	2,615,400	3,005,551	2,895,168	110,383
Excess (Deficiency) of Revenue Over Expenditures Before Other Financing Sources(Uses)	(244,700)	(384,851)	(52,382)	332,469
OTHER FINANCING SOURCES (USES):				
Transfers From Other Funds	134,300	134,300	3,575	(130,725)
TOTAL OTHER FINANCING SOURCES (USES)	134,300	134,300	3,575	(130,725)
NET CHANGES IN FUND BALANCES	(110,400)	(250,551)	(48,807)	201,744
FUND BALANCES - BEGINNING	110,400	250,551	89,035	(161,516)
FUND BALANCES - ENDING	0	0	40,228	40,228

See independent auditor's report and accompanying notes to financial statements.

MARION COUNTY, KENTUCKY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2006

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. Formal budgets are not adopted for the Jail Canteen Fund.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the Fiscal Court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the Fiscal Court by July 1.

The Fiscal Court may change the original budget by transferring appropriations at the activity level; however, the Fiscal Court may not increase the total budget without approved by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

MARION COUNTY, KENTUCKY
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
JUNE 30, 2006

	L.G.E.A. FUND	EMS FUND	ANIMAL CONTROL/ SLAVIN	RESCUE SQUAD/ SLAVIN	TOTAL NON-MAJOR GOVERNMENTAL FUNDS
ASSETS:					
Cash & Cash Equivalents	74,397	9,502	21,847	29,080	134,826
TOTAL ASSETS	<u>74,397</u>	<u>9,502</u>	<u>21,847</u>	<u>29,080</u>	<u>134,826</u>
FUND BALANCE:					
Unreserved:					
Special Revenue Funds	74,397	9,502	21,847	29,080	134,826
Capital Projects Fund					
Total Fund Balance	<u>74,397</u>	<u>9,502</u>	<u>21,847</u>	<u>29,080</u>	<u>134,826</u>

MARION COUNTY, KENTUCKY
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
YEAR ENDED JUNE 30, 2006

	L.G.E.A. FUND	EMS FUND	ANIMAL CONTROL/ SLAVIN FUND	RESCUE SQUAD/ SLAVIN FUND	PUBLIC PROPERTIES FUND	TOTAL NON-MAJOR GOVERNMENTAL FUNDS
REVENUES:						
Intergovernmental	50,452	10,017				60,469
Charges for Services		615,341				615,341
Miscellaneous		6,731	3,529			10,260
Interest	1,777	202	794	761	76	3,610
TOTAL REVENUES	52,229	632,291	4,323	761	76	689,680
EXPENDITURES:						
Protection to Persons and Property		684,250		5,000		689,250
General Health and Sanitation			13,153			13,153
Roads	10,000					10,000
Administration		149,000				149,000
TOTAL EXPENDITURES	10,000	833,250	13,153	5,000		861,403
Excess (Deficiency) of Revenue Over Expenditures	42,229	(200,959)	(8,830)	(4,239)	76	(171,723)
Before Other Financing Sources (Uses)						
OTHER FINANCING SOURCES(USES):						
Transfers from Other Funds		180,000			(3,575)	180,000
Transfers to Other Funds					(3,575)	(3,575)
TOTAL OTHER FINANCING SOURCES (USES)						
NET CHANGE IN FUND BALANCES	42,229	(20,959)	(8,830)	(4,239)	(3,499)	4,702
FUND BALANCES - BEGINNING	32,168	30,461	30,677	33,319	3,499	130,124
FUND BALANCES - ENDING	74,397	9,502	21,847	29,080	0	134,826

WHITE AND COMPANY, P.S.C.

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Charles M. White, CPA

Email cmwcpa@alltel.net

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING
STANDARDS***

Honorable John G. Mattingly, Marion County Judge/Executive
Members of Marion County Fiscal Court

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Marion County, Kentucky, as of and for the year ended June 30, 2006 which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated December 15, 2006. Marion County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Marion County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

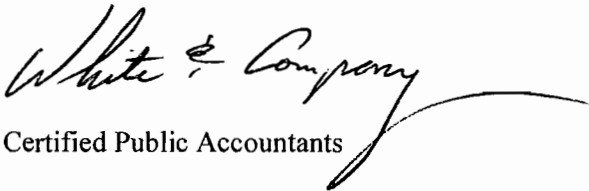
Compliance And Other Matters

As part of obtaining reasonable assurance about whether Marion County's financial statements for the year ended June 30, 2006, are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT
AUDITING STANDARDS*
(CONTINUED)**

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully Submitted,

A handwritten signature in cursive script that reads "White & Company". The signature is written in dark ink and has a long, sweeping horizontal line extending to the right.

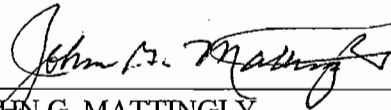
Certified Public Accountants

Audit fieldwork completed December 15, 2006

CERTIFICATION OF COMPLIANCE

**LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
MARION COUNTY FISCAL COURT
FISCAL YEAR ENDED JUNE 30, 2006**

The Marion County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



JOHN G. MATTINGLY
MARION COUNTY JUDGE/EXECUTIVE



SAMUEL B. FOGLE
MARION COUNTY TREASURER